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Nanfang Communication Holdings Limited
南方通信控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1617)

CONTINUING CONNECTED TRANSACTIONS

(1) 2022 ANNUAL CAP EXCEEDED

(2) REVISION OF ANNUAL CAP

Reference is made to the announcement of Nanfang Communication Holdings Limited dated 31 December 2020 (the “**CCT Announcement**”). Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the CCT Announcement.

It was disclosed in the CCT Announcement, among other things, that (i) the Framework Supply Agreement dated 31 December 2020 was entered into between Yingke Optical Material and Nanfang Optic and (ii) the annual caps for the year ending 31 December 2021, 2022 and 2023 were determined by the Board based on the estimated amount of sales revenue in respect of the supply of the optical fibre preforms under the Framework Supply Agreement.

2022 ANNUAL CAP EXCEEDED

In the course of finalising the annual results of the Group for the year ended 31 December 2022 (“**FY2022**”), it came to the attention of the Company that the sales revenue from the Framework Supply Agreement was approximately RMB153 million (the “**Actual Sales Revenue**”), which exceeded the 2022 annual cap of RMB116 million by approximately RMB37 million (the “**Exceeded Sales Revenue**”).

The Exceeded Sales Revenue is mainly attributable to the unexpected increase in both the price of optical fibre preforms sold by Yingke Optical Material to Nanfang Optic and its affiliated companies and the quantity of orders from Nanfang Optic and its affiliated companies.

The Directors consider that the exceeding of the annual cap of FY2022 was an inadvertent oversight and an isolated event. In order to prevent the occurrence of similar events in the future, the Company will take the following measures to strengthen the internal monitoring procedures:

1. providing training sessions to the Group’s relevant employees of business operation and finance department, to solidify their knowledge of the relevant Listing Rules and their awareness of the importance of Listing Rules compliance;
2. conducting more frequent reviews on the transactions between the Group and its connected persons; and
3. enhancing internal supervision over the transaction amounts in relation to continuing connected transactions of the Group, including the monthly reporting to the Board, the financial controller and the company secretary of the accumulated transaction amount of the continuing connected transactions and the percentage of annual cap reached by such accumulated transaction amount.

REVISION OF ANNUAL CAP FOR THE FRAMEWORK SUPPLY AGREEMENT

As disclosed in the CCT Announcement, the original annual caps of the expected sales revenue in respect of the supply of optical fibre preforms under the Framework Supply Agreement for the three years ending 31 December 2023 are as follows:

	For the year ending 31 December		
	2021	2022	2023
	<i>(RMB’000)</i>	<i>(RMB’000)</i>	<i>(RMB’000)</i>
Sales revenue	116,000	116,000	116,000

The annual cap for the year ending 31 December 2023 shall be referred to as the “**Original 2023 Annual Cap**” in this announcement.

As disclosed in the CCT Announcement, the original annual caps were determined with reference to the following:

- (a) historical transaction amounts for the two financial years ended 31 December 2019 and for the ten months ended 31 October 2020;
- (b) the potential demand for optical fibre preforms by Nanfang Optic for the three years ending 31 December 2023 (being approximately 200 tonnes per year), which is estimated by the Board based on the historical demand of Nanfang Optic for the three years ended 31 December 2020 (being approximately 210 tonnes per year on average);

- (c) the anticipated market price of optical fibre preforms in the PRC market for the three years ending 31 December 2023, which was estimated by the Board based on the average market price of optical fibre preforms as at 31 December 2020 (being approximately RMB580 per kilogram);
- (d) other economic factors (including, among others, the inflation and fluctuation of the market price and demand of the optical fibre preforms); and
- (e) on the principal assumption that, during the projected periods, there will not be any adverse change or disruption in market conditions, business operation, business environment or government policies which may materially affect the businesses of the Group, Yingke Optical Material and Nanfang Optic.

Historical Amounts

The historical amounts of the sales revenue for the years ended 31 December 2021 and 2022 were approximately RMB93 million and RMB153 million, respectively.

Revision of the Original 2023 Annual Cap

In view of the Actual Sales Revenue in FY2022, the Board anticipates that the sales revenue from the Framework Supply Agreement for the financial year ending 31 December 2023 (the “**FY2023**”) will exceed the Original 2023 Annual Cap. Accordingly, the Board has resolved to revise the Original 2023 Annual Cap to RMB228 million (the “**Revised 2023 Annual Cap**”).

The Revised 2023 Annual Cap was determined with reference to, among other things, the following:

- (a) the Actual Sales Revenue;
- (b) the potential demand for optical fibre preforms by Nanfang Optic and its affiliated companies for FY2023;
- (c) the anticipated market price of optical fibre preforms in the PRC market for FY2023, which was estimated by the Board based on the average market price of optical fibre preforms as at 31 December 2022, being approximately RMB630-650 per kilogram, and
- (d) other economic factors.

Pursuant to 14A.54 of the Listing Rules, the Company is required to re-comply with the reporting and announcement requirements under Chapter 14A of the Listing Rules in light of the Revised 2023 Annual Cap.

REASONS FOR AND BENEFIT FOR DETERMINING THE REVISED 2023 ANNUAL CAP

Considering the post-pandemic macroeconomic environment, the Directors consider that the sales revenue to be generated from the Framework Supply Agreement will increase during FY2023, and that the Original 2023 Annual Cap will soon be exceeded taking into account the Actual Sales Revenue. Therefore, the Directors are of the view that the revision of the Original 2023 Annual Cap will provide greater room for the Group to conduct business under the Framework Supply Agreement.

The Board (including the independent non-executive Directors) are of the view that the amount of the Revised 2023 Annual Cap and the basis of determining such amount are reasonable. None of the Directors had any material interest in the transactions contemplated under the Framework Supply Agreement. Therefore, no Director is required to abstain from voting on the resolutions of the Board in approving the Revised 2023 Annual Cap.

INFORMATION OF THE PARTIES

Yingke Optical Material is an indirect non-wholly owned subsidiary of the Group established in the PRC principally engaged in the manufacturing and sale of optical fibre preforms. As at the date of this announcement, Yingke Optical Material is owned as to 51% by the Group and as to 49% by Hengtong Light Guide.

Nanfang Optic is a limited liability company established in the PRC and is principally engaged in the production of optical fibres. As at the date of this announcement, Nanfang Optic is held as to 49% by Nanfang Communication, 47% by Jiangsu Hengtong and 4% by Suzhou Saitong Advanced Materials Company Limited (蘇州賽通新材料有限公司), which is an Independent Third Party. To the best of the knowledge, information and belief of the Directors, Suzhou Saitong Advanced Materials Company Limited is a limited liability company established in the PRC principally engaged in the production and processing of materials and mechanical and electrical equipments as well as the research, development and sale of other products, and it is ultimately owned by Mr. Cui Jianqiang (崔建強先生), an Independent Third Party.

IMPLICATIONS UNDER THE LISTING RULES

Yingke Optical Material is an indirect non-wholly owned subsidiary of the Company. As Hengtong Light Guide is a substantial shareholder of Yingke Optical Material, and Jiangsu Hengtong is the holding company of Hengtong Light Guide, Hengtong Light Guide and Jiangsu Hengtong are considered as connected persons of the Company at the subsidiary level.

As Nanfang Optic is held as to 47% by Jiangsu Hengtong, Nanfang Optic is regarded as an associate of Hengtong Light Guide for the purpose of the Listing Rules and therefore is also considered as a connected person of the Company at the subsidiary level.

Therefore, the transactions contemplated under the Framework Supply Agreement constitute continuing connected transactions under Chapter 14A of the Listing Rules.

As (i) Hengtong Light Guide, Jiangsu Hengtong and Nanfang Optic are connected persons of the Company at the subsidiary level; (ii) the transactions contemplated under the Framework Supply Agreement are on normal commercial terms; (iii) the Board (including all the independent non-executive Directors) have approved the transactions contemplated under the Framework Supply Agreement and confirmed that the terms of the Framework Supply Agreement are fair and reasonable, and on normal commercial terms and in the interests of the Company and the Shareholders as a whole, by virtue of Rule 14A.101 of the Listing Rules, the continuing connected transactions contemplated under the Framework Supply Agreement are subject to the reporting and announcement requirements but are exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Save for the Framework Supply Agreement, the annual caps for the other Agreements set out in the CCT Announcement will remain unchanged.

For and on behalf of the Board
Nanfang Communication Holdings Limited
Yu Jinlai
Chairman

Hong Kong, 22 March 2023

As at the date of this announcement, the executive Directors are Mr. Shi Ming (chief executive officer), Ms. Yu Rumin and Ms. Yu Ruping; the non-executive Director is Mr. Yu Jinlai (chairman); and the independent non-executive Directors are Mr. Wu Wing Kuen, Mr. Chan Kai Wing and Mr. Liu Cheng Yi.